



INSTITUTE OF PUBLIC AFFAIRS

ENERGY AND THE BUDGET AS PRIORITIES OF THE POLISH EU PRESIDENCY
THE PROSPECT OF THE VISEGRAD COUNTRIES AND GERMANY

What should the future EU budget look like? How should it be reformed? What should Polish Presidency do in the area of EU energy policy? What is expected in these fields by other countries in the region and where are the main challenges to win their support? These and other questions were debated by experts from Poland, Germany, Czech Republic and Hungary during the Institute of Public Affairs conference on these two essential priorities of Polish EU Presidency – EU budget and its energy policy. The publication contains two discussion papers followed by the conference lectures. It is aimed at looking for common interest of countries in the region and supporting of the efforts of the Polish Presidency.

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The prospect of the Visegrad countries and Germany

edited by

Grzegorz Gromadzki

David Král



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The Future EU Multiannual Financial Perspective

Institutional and Policy Context

The negotiation of the next EU multiannual budget will take place under a very different policy context than the previous agreements. First of all, the future financial perspective will be agreed under the new Lisbon Treaty rules which anchor multiannual budgeting in the EU primary legislation and thus make it an obligatory way of deciding about how the EU will spend its money. Unlike previous inter-institutional budget agreements that were adopted for a 7-year period, Article 312 of the Treaty on Functioning of the European Union (TFEU) doesn't stipulate any period as obligatory, but sets the minimum of 5-years. The main argument in favour of having a shorter budgetary perspective is the institutional one: particularly the European Parliament argues that for the sake of democratic accountability, the multiannual framework should be in line with the terms of the European Parliament and European Commission. A shorter multiannual framework would also probably ensure more flexibility than a longer one in terms of possible re-prioritisation. The main counter-argument is that a 5-year period is too short to launch and implement new programmes or to make any profound changes in existing ones if necessary. Thus a solution might be a combination of the two approaches, e.g., a longer multiannual framework (e.g., 10 years) with a more profound mid-term review after 5 years allowing for reflection on changing priorities while keeping the main programmes in place.

The forthcoming multiannual perspective will be adopted as Council Regulation by special legislative procedure. However, assent of the European

¹ David Král is the Director of EUROPEUM Institute for European Policy in Prague.

Parliament must be granted which essentially gives it a veto over the possible deal struck among member states. One of the difficulties that was not eliminated by the Lisbon Treaty is the unanimity requirement in the Council. Although the European Council can decide that the decision will be taken by the Council by qualified majority (a special passerelle clause), due to the sensitivity of the budgetary debates it cannot be realistically expected to happen.

The economic crisis that hit Europe in the past few years as well as the sovereign debt problems that some of the EU members are currently facing, have dramatically changed the context of the upcoming budget debate. The economic downturn, stimulus packages coming from national budgets and tensions these have created on public finances pre-determine a very cautious approach of many EU governments towards the size of the budget (i.e., very unlikely to consider any raise), as well as to the possible extension of the revenue side of it. Moreover, the fact that the EU budget is used as collateral towards the loans provided by the European Stability Mechanism also represents a new factor in the upcoming negotiations. Thus rather than on the size of the budget, one can expect that the debate will be more focused on its flexibility (which would enable it to react more swiftly to the changing environment or priorities), and on its ability to deliver as well as on internal cohesion.

The Revenue Side of the Budget: Time to Consider New Own Resources?

Although the core of the debate usually focuses on how EU money is spent, there is increasing pressure from various actors, including the European Parliament and civil society (which is obvious from consultations relating to the mid-term budget review) to revisit the issue of the Union's own resources. The current system enshrined in the founding Treaties stipulates that the EU budget must be financed solely by the Union's own resources (Article 311 TFEU) while leaving it up to the Council to determine the details through Council regulation adopted by special legislative procedure (involving the European Parliament only in consultation) and duly approved by the national parliaments under respective constitutional provisions. Currently, the EU's own resources consist of traditional own resources such as tariffs and agricultural levies, a portion of VAT collected by member states and the supplementary source based on GNI ratio. The importance of the latter source has grown immensely over the past years and now it represents over 3/4 of EU revenues. Although this system (put in place particularly to ensure the balance of the EU budget required by founding treaties) is in principle

considered as just by a majority of member states, it has been deformed over the years by various corrections and the principle of *juste retour* which take into account not only what the member states put into the budget but also what each one gets out of it. The criticism of the European Parliament also stems from the fact that the GNI-based approach puts the member states rather than citizens in the taxpayers' position and thus disengages the EU budget setting from normal democratic budgeting process. Another problem seen by many is that except for the tariffs there is no clear link between the EU revenues and EU policies.

The mid-term budgetary review for the current programming period, published by the European Commission (COM(2010)700), identifies three main challenges for the upcoming EU financial perspective: simplification of member states' contributions, progressive introduction of several new resources based on different EU policy areas and gradual elimination of currently applicable correction mechanisms for various EU member states. As for the first proposal, it practically aims at gradual removal of the VAT-based source, or its merger with the GNI-based source as the calculation of contributions from VAT adds to the opacity of the current system and there is no clear link between the taxpayers and the EU budget. On the contrary, there is a whole range of new resources that can be introduced based on particular policy areas. This would shift the discourse on the EU budget from net accounting balance perception to public goods perception, and would moreover take the burden off the national budgets (which might be a welcome move considering the current public finance problems of many EU member states), as the introduction of new resources would bring about diminishment of the existing GNI source. Some of the proposals for these "EU taxes" include taxes on the financial sector, of the emission trading scheme, of EU air traffic, an EU energy tax or EU corporate income tax. Finally, the (gradual) removal and phasing out of the existing corrections would increase the transparency and fairness of the EU budgeting and also help steer the debate away from the net balance discourse.

EU Expenditures – Time for a Policy-Oriented Budget?

The negotiations of EU expenditures is likely to involve more controversy than the debate on the revenue side. Despite the fact that the Commission's proposal which will inaugurate the inter-institutional bargaining will be presented only in June 2011, some elements can already be detected in the mid-term budget review referred to above. The Commission will clearly like

to see a policy-oriented budget which would be centred around the Europe 2020 strategy, representing the main strategic document for the EU for the next decade. The strategy which focuses on reinvigorating the European economy consists of three elements of growth: smart growth, sustainable growth and inclusive growth. The other categories of the EU budget will include the issues and policy areas not linked directly to Europe 2020 strategy: i.e., citizenship, pre-accession instruments, EU foreign policy (referred to as Global Europe) and administrative expenditure. It is obvious that most of the discussion of the expenditure side of the budget will be thus centred around the question of how to distribute expenditure among the three elements of growth hinted at therein, particularly how to (re)allocate the costs of the currently most costly policies in terms of overall expenditure (agriculture and cohesion policy), and also to what extent to incorporate new challenges that the EU is facing, such as energy and climate change.

The basic elements of the smart growth category will consist mainly of two categories: innovation, research and education, and infrastructure. Many stakeholders have argued for the need to emphasize especially the first element in the future EU budget as it is seen as the main engine of growth and having the potential of creating extra jobs. The logic also is that the EU budget will take part of the responsibility for keeping a high level of R&D spending during times when national budgets are under serious pressure and future-oriented, non-mandatory expenditures are the first ones to be likely cut. The EU can profit from new institutions such as the European Institute of Technology or European Research Council, but the main problem is not the lack of spending on R&D across the EU, but rather duplicity and overlapping of spending, so the key challenge will be to foster the evolution of the European Research Area which would ensure better synergy among various projects and initiatives across the EU. Another major challenge will be striking the right balance between the two subcategories: research and innovation on one hand, and investments in infrastructure on the other.

Sustainable growth will have to reconcile developments in two key areas: Common Agricultural Policy (CAP) and energy & climate change policies. While a large number of member states will probably be opposed to a radical decrease in overall agricultural spending, many of them see a strong role of the EU in terms of investments in sustainable energy infrastructure as a major challenge which should be reflected in the next budget. One possibility is that the energy and climate can be included in the re-prioritisation in other budgetary categories such as research, cohesion and agriculture. As far as the CAP is concerned, the negotiations will have to tackle the issue of how to match agricultural spending with other cross-cutting priorities such as competitiveness, environmental protection, etc. The details of future financing of

CAP will probably have to be addressed in a separate set of negotiations with the major issue being the re-evaluation of the reference values determining the level of direct support which are now clearly irrelevant as they are more than a decade old. Another major element in negotiations will be the discrepancies in direct payments between the farmers in different EU member states. It is difficult to predict at the moment how radical the reform of the CAP will be in the context of the upcoming budget negotiations. One can envisage a less drastic reform which will take the form of re-prioritisation in the current system of CAP funding (such as more emphasis on sustainability and rural development measures) as well as more radical measures that would move the existing schemes towards a more market-oriented approach and the further phasing-out of direct payments.

As for the last element of the Europe 2020 strategy – inclusive growth – one can also expect very tough negotiations especially in respect to the future of cohesion policy. The main problem is political – linked to the broad developments in the EU which decrease the richer member states appetite for solidarity with poorer members (or regions) and make it increasingly difficult to sell this to the domestic electorates. At the same time, the countries that currently benefit from cohesion policies would probably not like to see this instrument significantly diminished. The major challenge in this respect doesn't lie in the negotiations of the overall amounts to be allocated to cohesion policy, but also in simplification in programming and easier access to structural funds. However, by aligning the cohesion policy more closely with Europe 2020 strategy the member states should also accept the idea that their national programming documents should be linked to the overall Union objectives. This might be potentially controversial as some member states still view the cohesion policy as a way of getting EU funds for projects that are important in their own judgement.

From the other non-priority objectives one has to assume also the growing need for EU action in two other areas: citizenship (which includes freedom, security and justice) and Global Europe. While the first area has to face the pressure that more issues such as migration should be tackled at the European level, the issue of willingness to put more funds into a common European approach to sensitive issues again faces a somewhat reluctant attitude of some of the member states. Similarly, despite the proclaimed engagement of Europe globally, the EU is often not able to put its money where its mouth is and relies more on the member states taking various initiatives (e.g., in response to newly emerging crises), including their bearing the financial costs for such actions.

Conclusion – Not matching ambition with reality?

The upcoming budgetary negotiations are going to be trapped in a mismatch between excessive expectations on the one hand (particularly on the part of the communitarian institutions) and the harsh reality stemming from the current mood in the national capitals and increased distrust among member states. On one hand, the EU is expected (not least by many member states) to deliver in new policies, such as energy & climate change, external action, citizenship or R&D. This would indicate that the EU budget should indeed have adequate funding for these new policies which is likely to be defended by the Commission and the European Parliament. On the other hand, the member states in the wake of the debt crisis and various measures agreed outside of the EU budget (such as the European Stability Mechanism) will be opposed to any overall increase of the budget. While most of the member states acknowledge the need for readjusting the EU finances to be fitter for the challenges of the 21st century, hardly any of them are willing to give up on policies or mechanisms that bring benefits to their countries and citizens. The compromise will thus have to reconcile these two apparently contradictory approaches. While the overall threshold of the budgetary spending is not likely to rise dramatically, the negotiations will certainly lead to opening of the debate on both the revenue and the expenditure side. The possibility of considering new own resources for the EU budget might be tricky at the moment, but in the long-run may actually help the national capitals by reducing pressure on their own budgets and change the perception that the budgetary negotiations are a zero-sum game. On the expenditure side, unless major reshuffles among the budgetary categories are to be agreed (which is unlikely), the most likely way forward will be that the new priorities will be streamlined into existing programmes. Part of the debate will probably focus more on the flexibility of the budget in terms of its readjustments to new priorities and challenges. Whether and how this be implemented, however, will not be decided in the “grand bargain” which will be launched under the Polish EU presidency.

*Grzegorz Gromadzki*¹

The Energy Riddle of the Polish Presidency

The Polish Government should rethink its energy priority for the Presidency of the EU Council, since it would clearly be a mistake to only concern itself with the EU's external energy policy. The second half of this year, when Poland takes on the Presidency, will be a time when several other important energy issues will also have to be dealt with. Furthermore, pursuance of the EU's external energy policy must be within the context of the Union's internal energy market. For this reason, the scope of this energy priority needs to be broadened.

The final priorities for the Polish Presidency will be announced just prior to Poland taking over this role. The proposals presented by the Government are therefore still tentative and subject to change. This needs to be remembered when formulating conclusions.

Energy is among the priorities Poland wants to pursue during the Presidency, not as a whole but only as regards "the strengthening of the EU's external energy policy" ("Poland believes that due to the work on a new energy strategy for the next decade, it will be necessary to examine the condition of the external EU energy policy and develop solutions to strengthen it."²). Furthermore, this is to be included in a broader priority referred to as "a secure Europe".³

¹ Grzegorz Gromadzki is an independent expert in international affairs, EU Eastern Policy and energy policy.

² See "The Six-Month Programme of the Polish Presidency of the EU Council in the Second Half of 2011", adopted by the Council of Ministers on 15 March: <http://www.prezydencjaue.gov.pl/en/areas-of-preparations/program>

³ The Polish Government plans to pursue three priorities during the Presidency: "a secure Europe", "European integration as a source of growth", and "the benefits of openness for Europe"; see the document referred to above.

Initially “the strengthening of the EU’s external energy policy” was to be consolidated into a single priority (“a secure Europe”) with only one other issue (“hard security”), as reflected in a statement made recently by Mikołaj Dowgielewicz, Deputy Minister for Foreign Affairs responsible for the preparations for the Presidency in terms of priorities (“Third, the security of the Union, that is to say its common security and defence policy and external energy policy”⁴). However, for now “a secure Europe” covers also some other issues, such as confidence of financial markets, protection of the EU’s external borders, and food security.⁵

Discourse Shapes the Priority

It could be claimed that such an energy priority is the outcome of the discourse concerning energy issues in Poland which revolves primarily around the security of raw material supplies, in particular natural gas. This concern governs not only the discourse among the various decision-makers but also the general public. There is much apprehension concerning Gazprom, Russia as a whole, and another gas crisis like that in 2009, which was due to a conflict between Russia and Ukraine. Such concern is not uncommon in several other Member States, in particular those that like Poland are heavily dependent on gas supplies from Russia.

Apart from the security of supply, in Poland discourse on energy issues centres around the profound dread of changes in the energy landscape, and more broadly, in the economy as a whole; changes that would be necessitated by a move away from coal as the main energy source. This problem is particularly acute for Poland because unlike any other Member State, the country is heavily reliant on coal (both hard coal and lignite). Yet there are no plans to substantially reduce this dependence on coal in the next several decades: “State energy policy assumes using coal as the main fuel for the power industry in order to ensure an adequate level of energy security of the country.”⁶ This also leads to the aversion in Poland towards the EU’s climate policy. Such an attitude is radically different from that in the main current of thought concerning energy issues in the majority of EU Member States and EU institutions. Because it finds it inconvenient it is highly unlikely that the Polish Government has the desire to fully embrace the EU energy and climate policy or promote the same during Poland’s Presidency.

⁴ See Minister Dowgielewicz statement of 14 March: http://europarlament.pap.pl/palio/html.run?_Instance=cms_ep.pap.pl&_PageID=1&_menuId=17&_nrDep=27158&_Checksum=522582051

⁵ See the document referred to in footnote 1 above.

⁶ See the “Energy Policy of Poland until 2030”: http://www.mg.gov.pl/files/upload/8134/Polityka%20energetyczna%20ost_en.pdf

Poland's Ambiguous Stance

It is difficult to regard the Polish Government's attitude towards the EU energy and climate policy as consistent or well thought out. There are at least three reasons for this.

First, there is a systemic problem

Energy and climate issues are the province of several decision-making centres within the Polish Government. With regard to energy, the most important role is played by the Ministry of the Economy. As for climate policy, the highest authority is the Ministry of the Environment. However, both these areas also fall within the competence of the Ministry of Foreign Affairs. Furthermore, until recently there was also an Energy Plenipotentiary, a post within the Chancellery of the Prime Minister. It is obvious that the attendant confusion has yet to be dispelled, even though in 2009 the Government adopted and published the "Energy Strategy of Poland until 2030".

Such fragmentation of authority at a domestic level leads to needless inconsistencies. From time to time it even gives rise to rivalry between the various decision-making factions. Yet there still exists no structure within the Government where disparate positions could be consolidated into coherent solutions to energy and climate issues.

Second, Poland has no clear-cut stance on energy relations with third countries

The Polish Government seems to be lacking a clear-cut stance on energy relations with third countries. On the one hand, the Polish Government advocates the broadest possible development of a common EU energy policy *vis-à-vis* third countries (communitisation), in the belief that its position in negotiations with them will thus be made significantly stronger, with Poland being regarded as a constituent part of the Union, and not a lone player. On the other hand, it would seem that whenever it sees fit, the Polish Government disregards the rules adopted by the Union as a whole (and thus also by Poland as a Member State!). The best example of this were the 2010 negotiations on the gas agreement with Russia. The first draft of the agreement contained terms and conditions that were clearly contrary to the second and third energy packages (third-party access, unbundling). At informal discussions at that time some Polish decision-makers were even tempted to claim that since the third package had not yet come into force it need not be included in the Polish-Russian agreement. This gave rise to conflict within the Polish Government,

and in particular between the Ministry of the Economy and the Ministry of Foreign Affairs, the latter being vehemently opposed to such terms and conditions. Of course, it also gave rise to serious conflict between the Polish Government and the European Commission, the latter being the guardian ensuring compliance with the EU regulations that guarantee individual Member States greater security with regard to gas supplies from third countries.

Poland also seems to be lacking the requisite eagerness to implement EU energy legislation. The third energy package is still waiting to be transposed. Poland is also not availing itself of the opportunities afforded by the establishment of the Energy Community, the organisation created with a view of integrating the Western Balkan States with the common energy market (electricity and natural gas) in the EU. The Energy Community was recently expanded by the accession of two Eastern Partnership Countries: Moldova and Ukraine. Unfortunately, Poland is still not a participant of this organisation even though it is as much entitled to join as any other EU Member State. Accession would allow Poland to participate fully in all Energy Community activities. The Energy Community already comprises 14 EU Member States, including all the other Visegrad Group countries, Germany, France, Great Britain, Italy, Austria, Romania and Bulgaria. There is no rational reason why Poland is still not a participant.

Third, there is no clear-cut stance on the EU's climate policy

The Polish Government seems reluctant to adopt a clear-cut stance on the EU's climate policy. On the one hand, the Polish Government is not keen on the ambitious goals in the energy and climate package, in particular those relating to a radical reduction of CO² emissions. It is opposed to such goals being achieved in Poland due to the very high cost to the national economy. On the other hand, Poland wishes to be seen in the EU as an "emerging power" – a country to be reckoned with. Poland cannot therefore afford to keep on totally negating the EU's climate policy, especially since its implementation has become one of the EU's top priorities. Usually, Poland adopts a defensive position towards the EU's climate policy. A good example of this can be found in the "Energy Policy of Poland until 2030", where the main energy policy tools include "Activity within the structures of the European Union, particularly those leading to such EU energy policy and Community requirements in respect of environmental protection that would take into account the nature of the Polish power sector and result in Poland's enhanced energy security."⁷

⁷ See the document referred to in footnote 5 above.

Energy Priority for the Presidency – a Critical View

There are at least four reasons why the energy priority for the Polish Presidency ought to be broadened.

Firstly, there are other energy issues that are at least as important as “the strengthening of the EU’s external energy policy”. One could, for example, mention issues relating to energy efficiency or those covered by the EU energy and climate policy, as seen within the context of the forthcoming Durban (COP-17) conference which will take place during the Polish Presidency. Limiting the energy priority only to “the strengthening of the EU’s external energy policy” would unfortunately lead to reinforcement of the stereotype Poland already tends to suffer from, namely that of a country whose perspective on energy issues tends to be very narrow indeed. Poland appears to view such issues only in terms of its own energy security and in particular, the security of gas supplies from Russia. Yet at the same time Poland seems to be reluctant to embrace issues relating to climate change or the low-carbon economy.

Secondly, combining the common security and defence policy with the energy policy is a mistake, as this (at least to some degree) leads to problems concerning the security of energy raw material supplies being identified with so-called “hard security” problems. This linking of the two policies results in the needless “militarisation” of energy issues. Such issues, and in particular these relating to the security of energy raw material supplies for Europe, are not governed by economic considerations alone, tending to be heavily politicised, especially when it comes to relations with Russia. But everything that possibly can should be done to reduce these to the level of the economy.

Thirdly, the internal and external aspects of the EU’s energy policy cannot be viewed separately. Effective external EU energy policy presupposes the achievement of a common energy market in the EU with all the attendant legislation. This truth ought to be reflected in the energy priority as finally adopted by Poland for the Presidency.

Fourthly, there are presently no direct references to the EU’s climate policy, which in both the internal and external aspects is inseparable from its energy policy. It is no accident that one of the key EU documents concerning the EU’s energy policy is the climate and energy package adopted in 2008.

Another Important Year Ahead

Over the last few years, each year has been as important for the EU’s energy policy as the next, this area being characterised by constant and rapid changes and attendant problems. This shows how important and difficult

theses issues are for the various Member States, various interest groups and major industry players. This year alone, on 4 February, the European Council for the first time in history held an energy summit. Though this did not bring any spectacular results, it showed how important energy issues are for the EU. In March, the European Commission presented the European Energy Efficiency Plan. This document is a kind of roadmap for the EU on energy efficiency until 2020. Next, by June, the European Commission is to present a draft regulation on devising an infrastructure instrument that is to be of paramount importance for the further development of energy (power and gas) infrastructure in the EU. The same month will see a decision being taken on the future of the Southern Gas Corridor. In September, the European Commission is to present a comprehensive set of proposals on the external dimension of the EU energy policy, and in November, a fundamental Energy Roadmap for 2050, laying down the energy sector measures to be taken by the EU up to that date. And last but not least, by the beginning of December, a conference on climate (COP17) is to be held in Durban, South Africa. This conference will be absolutely central to reaching a worldwide agreement on the reduction of CO² emissions that will replace the Kyoto Protocol.

Challenges to be Faced

Even this brief list of events shows how important these coming months, including those during the Polish Presidency, will be for the EU's energy policy as a whole. For this reason, the Polish Government ought to rethink its attitude towards energy issues, especially within the context of the forthcoming Presidency. The Government should therefore:

Modify its Energy Priority for the Presidency

The external EU energy policy should not be seen as the “be-all and end-all” for the Polish Presidency. During its Presidency Poland will be forced to deal with energy issues falling outside the scope of the external EU energy policy. It should therefore redefine its energy priority for the Presidency and thus prove it is not obsessed with solely the external dimension of the EU energy policy and the need to guarantee the security of energy raw material supplies.

It would be better still if the first key priority for the Polish Presidency (“European integration as a source of growth”) were to also cover energy issues, because these are bound to exert a profound influence on the

economic development of the EU over the next few years and in the decades ahead.

As for “the strengthening of the EU’s external energy policy”, emphasis should be placed here on future relations with North African countries, especially in view of the latest developments in this region.

Be well prepared

Before taking over the Presidency, Poland ought to do everything in its power to implement the third energy package by means of the necessary amendments to the national legislation. Then, during the Presidency, Poland ought to support this same process in other Member States. It should also take advantage of all the opportunities afforded by the establishment of the Energy Community. Therefore, Poland should join this organisation as soon as possible and support the European Commission in its efforts towards ensuring that Moldova and Ukraine fulfil their commitments within the Energy Community. Without total dedication to implementation of the third energy package by means of amendments to the national legislation and secondly, accession to the Energy Community, Poland’s credibility in terms of energy issues, particularly those relating to the external dimension of the EU’s energy policy, is bound to suffer.

Support adoption of a regulation on devising an infrastructure instrument

Poland should seek to ensure that the Council of the European Union adopts as soon as possible a regulation on devising an infrastructure instrument. This is of paramount importance for Poland, Central and Eastern Europe and the EU as a whole.

Support energy efficiency measures

Poland should support the European Commission in its efforts towards the adoption of energy efficiency legislation following the Commission’s publication of its European Energy Efficiency Plan in March of this year.⁸ It would be natural for Poland to do so, since improving energy efficiency is after all listed among the priorities of the above-mentioned “Energy Strategy of Poland until 2030”.

⁸ See: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/271&format=HTML&aged=0&language=en&guiLanguage=en>

Don't forget about Durban

Poland should actively participate in the development of an EU position for the Durban conference. As the Member State holding the Presidency, Poland ought to adopt the stance of an impartial arbiter towards the disparate positions of the various EU institutions and individual Member States.

Only a comprehensive approach to the EU's energy policy will secure the achievement of goals that are so important for both Poland and the EU as a whole. It would be a serious mistake if, during the Polish Presidency, the Polish Government were to concern itself only with "the strengthening of the EU's external energy policy". Such an approach would only further reinforce the stereotype of Poland as a country whose perspective on energy issues centres around its own energy security, reluctant to embrace the EU's energy policy as a whole.

*Vladimir Bartovic, Eckart D. Stratenschulte,
Paweł Samecki, Tamas Szemler*

The Polish EU Presidency and the negotiations on the Multiannual Financial Framework 2014-2020

Transcript of debate from the conference:
Energy and the budget as priorities of the Polish EU Presidency
The prospect of Visegrad countries and Germany

Jacek Kucharczyk¹: As always, I would like to start by thanking our partners and sponsors without whom this conference wouldn't have happened. Our partners in this conference and the project include EUROPEUM Institute for European Policy from Prague, which is a well-known Czech think tank working on issues of European integration, and we have a very long track record of cooperation with EUROPEUM. I think more than ten years we've been working together doing some successful projects, so I would like to thank Vladimir Bartovic, who is representing EUROPEUM here. I would also like to thank two other partners: the Centre for EU Enlargement Studies at the Central European University in Budapest which is also our trusted partner with whom we've worked together for some time and last, but not least, the European Academy from Berlin, a well-known centre of European debate and learning education from Germany. I also would like to thank our sponsors: the International Visegrad Fund and the Foundation of German-Polish Cooperation. Because this conference has an international scope, we believe that the debate about the priorities of the Polish presidency should not only concern us here in Poland and we should not only debate here, but also with our colleagues and partners from other countries, especially with those countries which are very important for Polish-European policy as it has been frequently declared by

¹ Jacek Kucharczyk is a President of the Executive Board of the Institute of Public Affairs in Warsaw.

Polish foreign minister and by the Polish government about the importance of Germany and the Visegrad countries as our partners in Europe and countries with whom we want to work to promote Polish vision and Polish perspectives of European integration. Especially now in this crucial moment – that is, just before the Polish presidency. We also believe that the Polish presidency is not a technical issue, it is an issue of public interest and public debate on all the priorities whose preliminary list has already been announced, and it is very important that the citizens should be informed and have a chance to contribute to all the debates related to the aims of the presidency. The priorities which we have chosen for today's conference seem particularly difficult. Maybe I should say other priorities are not easy either, but in this case we have what seems like a certain contradiction. It is widely recognised that the Polish presidency will be successful only if Poland acts and is perceived as a so-called honest broker, a country which seeks agreements and common denominators for all the European interests and perspectives. At the same time, both issues – budget and energy policy – are very important for Poland. We have very, or let's say relatively, clearly defined interests in those fields and by no means all those interests are identical with all EU member states. So, definitely these are the two topics where experts and citizens should also be informed and debate, and we have to have at least a good understanding of both the similarities and differences as regards these priorities. As indeed goes about the other priorities, I suppose that it would be true. Without taking much more of your time I will now hand over the moderation of the first panel which is devoted to the financial perspective. I would ask Vladimir Bartovic from EUROPEUM to introduce the panelists and moderate the discussion. I should also say thanks to all the panelists who agreed to come to Warsaw and be with us and share their knowledge and their perspectives with us. So, thank you very much once again. Thank you for coming here and I hand over to Vladimir.

Vladimir Bartovic²: Thank you Jacek. Thank you Instytut Spraw Publicznych for inviting me personally to Warsaw to chair this panel and also for including EUROPEUM from Prague in this project. This is a very important and interesting conference. Ladies and gentlemen, let me welcome you on the first panel which is devoted to the EU budget and especially to the multiannual financial framework for the next – we still don't know how many – years. But first of all, I would like to introduce the panelists of this first panel. On my right is Prof. Dr. Eckart Stratenschulte, Director of the European Academy in Berlin, on my far left is Dr. Paweł Samecki, advisor to the President of the National Bank of Poland and on my direct left is Dr. Tamás Szemler, senior

² Vladimir Bartovic is a Senior Researcher in EUROPEUM Institute for European Policy in Prague.

research fellow from ICEG European Centre from Hungary. All the gentlemen present in this panel will be tackling the same issue and they will be answering very burning questions I hope you might have about the next financial perspective and especially in relation with the upcoming Polish presidency, which will be the one responsible for opening this question. The new financial perspective for the next period will be for the first time negotiated under the new legal framework set up by the Lisbon Treaty. Will there be any consequences on this instrument's legal setup? Will we have the impact on the negotiations and on the result of the negotiations? This is the first question. Another question which may arise: How will the economic crisis which is now still present in the European Union and is also transforming itself to the debt crisis in the sovereign states in the EU effect the preparedness and the ability of the member states to reform the next financial perspective? Very different are the interests of the member states, even inside the group of the newcomers or the Visegrad countries. Is there any chance for a common space for at least the Visegrad group to coordinate or to set up a common approach to the negotiations? Extremely important is the question of the revenue side and of the introduction of the common European taxes which would replace the very criticized current VAT resource. And most important – what will be expected from the Polish presidency? Can it act as Jacek envisages as a honest broker, or is the particular interest of Poland so strong that this won't be 100% possible? I'll stop here with my questions. I will ask panelists to start with their short presentations and afterwards we'll open the floor for the discussions between panelists and your comments and questions. Thank you very much for coming here and now I would like to pass the floor over to Professor Stratenschulte.

Eckart D. Stratenschulte³: Thank you very much. Good morning ladies and gentlemen. First of all, I would like to thank the organisers for the invitation. It is always a pleasure to be here in Warsaw. It is such a nice morning, so therefore it really is a pity that we have to talk about the budget. It has become a good practice that before taking over the presidency you talk about the program of the presidency. However, as we learn from history the agenda of the presidency is not made by the country running the presidency but by topicality and reality – and mostly things turn out to be very different from the original plans. So, this is our experience and I dare to guess that it will also happen in Poland. Nonetheless, we should think about the main topics of the presidency. Of course one important topic is the budget and in particular the financial perspective for the next years. For the time being we will leave the question whether it will be the period from 2014 to 2020 aside and come back to it later.

³ Eckart D. Stratenschulte is a Director of the European Academy Berlin.

I would like to state four points. First of all, I would like to say that the question of the framework or rather how the new framework influences the budget negotiations is a typical insider question. In my view what is really at stake is the question of the acceptance of the European Union by its citizens. And here we have a severe problem. I even would go as far as to say this is the main problem. The question is not whether we are dealing with the Lisbon Treaty, or the Nice Treaty, or this or that mechanism.

In Germany it can be observed that more and more people lose their faith and their trust in the European Union. This tendency can also be seen in other countries. Therefore I think that the main topic of the budget discussion will be to address these feelings and to increase people's acceptance of the European Union. It is true, when we talk about the budget and in particular about the pre-view for the years to come we talk about revenue and spending, that is, both sides of the budget. One thing is very obvious: you cannot have a budget in which 27 countries put some money in and get more out. This will not work. And to organise it as a zero-sum game, so that everybody gets exactly out what he has paid in would not make sense. There will be always net payers and net beneficiaries and this will not change. Of course the net payers are less and less happy with this situation. But we cannot avoid discussing this question. Plans by the European Commission to introduce a different way of increasing revenue by direct European taxes will not lead anywhere at the moment. It would only produce headlines in our newspapers such as: "New taxes from Brussels". One has to be careful to talk about new European taxes and consider their risks. One risk is of course that the revenue is increasing and decreasing. We do not have this problem at the moment in the European budget. We should disconnect the topic of European taxes from the question of the budget for the years 2014 to 2020 because it is not an instrument to avoid the net payer discussion. This topic needs to be addressed and discussed openly.

My second point is that we need to have an open debate on the new budget lines. This debate should focus on solidarity and effectiveness, which is more than just efficiency. Efficiency is to do things right, effectiveness is to do the right things. So, here we are talking about effectiveness, transparency and the common good we have in the European Union. These are the criteria for the budget discussion. The new budget lines should not be discussed under the premise whether Poland gets three billion more or less, or whether Germany has to pay one billion more or less. This would be the wrong approach. The right angle from which to look at the main topics is how do we benefit jointly by strengthening solidarity, effectiveness and transparency.

Looking at the European agenda one thing becomes obvious: The main tasks in the next years will be the decrease of the national debts and the rescue of the Euro. These are the issues at stake. Anything else is a different part,

a less important part of the agenda. Here we talk about the future of the Euro and this also means talking about national debts. Europe 2020 and the Euro Plus Pact are the important documents and they form the basis for the discussion about the European Union in the next years. They make up the backdrop against which the new budget lines have to be discussed.

If you want to decrease national debts, it is very difficult to say that more has to be paid into the European budget. One way or the other this would be an extra burden for the national budget. As this is very clear the main question is: Does it serve the purpose and does it serve Europe 2020? Europe 2020 is plan B, plan A was the Lisbon process which has failed. This is not the forum to discuss whether this failure was 100 per cent or – as the Commission sees it – only 75 per cent. Europe 2020 is our last chance to regain competitiveness. This is a lesson learnt from the Greek crisis and also from the Portuguese crisis. It is not only a debt problem, it is also a productivity problem. Even if we had the money to bail out the Greeks completely and leave them with zero debt, they would be in the same situation in a couple of years if they do not gain productivity. A person who has 1000 Euro per month to spend and keeps spending 1200 per month has to do something about it. Europe 2020 is extremely important for regaining competitiveness for the European Union as a whole and will therefore be the main focus of the budget discussion.

My last point is: What can the Polish presidency do? Well, frankly, not much. Because it is too early for the final compromise on the new budget under the new financial framework. It is not how the European Union works. This is not the Polish fault. But no head of state or government would agree on the new budget line for 2014 in 2011 unless his or her country is a very clear beneficiary of that. But it will not be that easy. It is too early for a solution. This is very obvious and this is not good news because the Polish presidency is followed by the Danish presidency, then by the presidency of Cyprus. In 2013 it is not getting much better when Ireland and Lithuania will take over. In 2014, when the new budget line applies, it will be Greece's turn. It is therefore most likely that the decisions will not be made under the auspices of the rotating presidency. This is very obvious because Poland is the last heavy weight in this round and even this heavy weight is a bit damaged because it is not part of the Eurozone. Moreover, the whole undertaking is focussed on the Euro and it is evident that in the EU every country which is not part of the Eurozone is losing influence.

But as it is too early for a solution, the question that needs to be asked is what can the Polish presidency do? There are two possibilities. Number one: take it off the agenda and leave it to Cyprus. Good luck with that. Number 2: launch a public debate about the principles of the budget. Of course, it is option

number two that would be my suggestion. This is what is really needed. We do not need the negotiations in the dark rooms of the Brussels machinery. What we need now is to regain acceptance of the EU and to make clear to people that the European money is spent in a useful way. We need this public discussion, and Poland as a big country has some instruments for public diplomacy at its disposal. The embassies, cultural institutes, multipliers and contacts may be used. Cyprus could not do that even if it wanted to. My answer to the question of what the Polish presidency could do would be to start this public debate. Get away from who gets how much and come to the principles of spending. What are the principles of gaining the revenue? How do we guarantee transparency and solidarity, and how to increase effectiveness? Those who put money into the jackpot do expect that those who take it out make good and sensible use of it: Solidarity is also a two-way street. If this debate could be started by the Polish presidency it would do a lot for safeguarding the future of the European Union.

Bartovic: Thank you professor. I very much liked your presentation, especially the point you made about the citizens and the discussions in the EU which reflects the opinions of citizens about the European Union. I can see in your presentation some contradicting points. On one side, we have citizens who are losing their faith in the EU and, for example, introducing the new European taxes would not help this situation. And on the other hand, there are bankrupting states which may like the European taxes thus economising in their own budgets. At the beginning it looked like the Polish presidency in case of the budget can't really do anything, but at the end you showed the way, which I also appreciated. I'm just wondering if at the end all the good will to discuss the principle will not end in horse trading about this one one billion euro here, one billion euro there. But that's probably just only my wish. Now I'll be handing the floor over to doctor Paweł Samecki who maybe has higher expectations from the Polish presidency.

Paweł Samecki⁴: Thank you for inviting me. Professor Stratenschulte focused on the principles, the process, and the climate of negotiations. I'll speak more about the substance, but I'll try not to be too technical. I'll try to refer to questions posed by the organizers and also mentioned by the moderator. The first question is, do we need reforms of the EU budget? My assumption is, if we make an identity line between reforms and changes – changes hopefully for the better – that yes, we do need reforms, we do need changes, provided that we continue to believe there is a need for continuity of European integration and providing that we believe in cost-effectiveness of public spending

⁴ Paweł Samecki is an Adviser to the President of the National Bank of Poland.

from the EU budget, which is not necessary the case. It is very frequently doubted. So, providing that those two conditions are met, there are at least three reasons for reforms. One is the context of post-crisis environment in which there is a lot of pressure on national governments to consolidate fiscally. And indeed, this is a justified pressure, I agree with the professor. To avoid these constraints coming from national consolidation pressures we need to look for innovative sources of financing. Secondly, on the expenditures side, of course, it is again true that we need reforms as we adopted last year the new strategy for the European Union in the form of *Europe 2020*. I'm not particularly fond of this strategy but since we adopted it last year, we need to take it into account and we need to make it a kind of backbone for thinking about future spending from the EU budget. Thirdly, we need to take into account and reflect about the developments in the external environment. This is also obvious.

About the revenue side, I clearly see the need for looking for new innovative sources of financing. I don't want to discuss them in detail, they're quite nicely and shortly described in the paper provided by the moderating organiser. I just want to say that I subscribe to the view expressed in some European Commission documents that those new sources make sense particularly where the additional revenue coming from a given source is accompanied by a positive side effect in the form of a kind of public good. For example, if we think about a levy or a tax on financial institutions, the financial sector or financial transactions, apart from the additional resources such a tax would create, it would provide for the public good in the form of, for example, increased stability of financial markets. Or if we think, for example, of an instrument in the form of a levy on risks that are taken by the financial entities. Again, if such an instrument gives not only additional resources, but also mitigates the risks taken by those entities, it will be better. That's why I believe that the very sense is to look at the spectrum or palette of new financial instruments and to adopt those that fulfill the conditions like the ones mentioned before.

Now, a few words about the expenditure side. And here I would like to present a table which looks a bit complicated, but is not in fact. The central column is most important, as it presents my guess – my assumption about what the next priorities for the next financial perspective will be. My guess is not based only on my own thinking. It is based upon, firstly, what is inside of *Europe 2020* and furthermore, it is based on priority areas signaled in the EU budget review from October last year, namely the three types of growth: smart, sustainable and inclusive, then citizenship, global Europe and administration. We can look at this list of priorities and compare it with the left-hand column which contains headings from the current perspective.

2007-2013	Post-2013 (based on The EU Budget Review, Oct. 2010)	Net Payers	Net Beneficiaries
1a. Competitiveness	Smart growth:	↗	→
1b. Cohesion for Growth and Employment	– R&D, education – Infrastructure (transport, telecom, energy)	↘	↗
some elements of 1b. Cohesion/1a. Competitiveness	Sustainable growth:	↗	↘
2. Preservation and Mgmt of Natural Resources	– Counteracting climate change, energy saving & energy security – CAP	→	→
1b. Cohesion for Growth and Employment	Inclusive growth: Cohesion policy	↘	→
3. Citizenship, freedom...	Citizenship (incl. migration)	↗	→
1b. Cohesion for Growth...	Pre-accession aid	↘	→
4. EU as a global player	Global Europe (ext. aid, ENPI)	↗	→
5. Administration	Administration	↓ or ↘	→ or ↘

My conclusion is, if Europe 2020 is to become the backbone of the new budget, which I assume it should, then there is a kind of continuity with the current perspective. Because again, almost all new headings, all new chapters in the post-2013 perspective are more or less reflected in the past. The only exception is climate change and energy security which are somewhat different from the past. But the rest is more or less the same, grouped in a different way and presented in a different manner. So, in this sense there is a lot of continuity in Europe 2020 as compared to the Lisbon strategy. I'm not saying whether it's good or bad but simply that's my perception. So, if at the level of broad priority areas there's lot of continuity, then the devil is in the details – inside individual priority areas. And here we have real questions on how to reconstruct, how to reshape, how to redesign cohesion policy to ensure that it has indeed a modernising impact on lagging regions. Or another important question: how to ensure that the Common Agricultural Policy is modernized so that it loses its negative side effects in the form of petrification of obsolete structures in lagging regions. These are the questions which we should focus on in the future. And my last remark concerning the spending side is that when we look at the red color on the left hand side, these are places where cohesion policy appears. I was responsible for cohesion policy for quite a long time in the Polish administration and later in

Brussels, that's why I pay particular attention to this issue. And here you can see that in the post-2013 period, in the next financial perspective, there is a lot of reference to cohesion policy. I'm afraid there are too many references to the cohesion policy which leads me to the conclusion that probably there will be a kind of a proliferation of tasks, aims, objectives to be put on the shoulders of cohesion policy. This policy might be overburdened with too many ideas and become a basket for everything, which should not be the case. But it's my fear.

As to positions and individual groups of member states, I think that's a relatively easy guess. Again when we look at the right hand columns, these are my assessments of positions of individual payers, or groups of net payers *vs.* net beneficiaries. There are few places where the direction of intentions is similar or the same. In fact, in many places the direction is of different nature. That's why I think it's simply natural that the net payers have different positions as compared to net beneficiaries. We simply have to conclude that there will be tough negotiations ahead, but this is business as usual. It has always been the case. One reference to the Polish presidency: As you know I'm a Pole so I should be an "honest panelist" and I don't want to assess Poland. But my impression is simply that Poland will be in an uneasy situation because Poland or Polish authorities would like to be a defender of *at least* the status quo in the budget and I presume that the Polish authorities would like to be quite vocal about it. But of course to combine this with the task of an honest broker is impossible, that's why I believe that the second half of this year will be spent on a kind of reconnaissance, feeling, touching and trying to learn about the positions of other countries. I'm not saying this is a waste of time, but simply it will be a good period for reflection about the positions of different countries and thinking about details and priorities in individual policy areas and how they should be constructed.

Now a few words about how I see the desired future of the next multiannual financial perspective. This is not an exhaustive list of desired features but I would like to pay attention to a few issues. I believe that the budget should be financed to a possible extent by innovative sources, although it will not be easy. It should be much focused on priority areas and again on Europe 2020. This is something what we have at our disposal and we should pursue it. It should be more flexible. I believe that a shorter horizon will be better because the world keeps changing so fast. The financial crises show there are so many unforeseen events in the world and that in order to respond to them, we need more flexibility. And more flexibility would be given by a shorter horizon and by some kind of contingency arrangements inside the budget. It should be simpler in terms of management rules. Many principles inside the budget, including principles and rules of expenditure, should be harmonised or universal. This is a postulate which has been proposed for many years but still is not fulfilled in a satisfactory manner, and I believe is a bit contrary to what

the professor said about that. The budget should be bigger and I'm not speaking on behalf of new member states or on behalf of beneficiary countries. I think it should be bigger because the Union at the EU level doesn't have any kind of substitute for common fiscal policy and this is particularly about the EMU. It's not about the new member states, it's about the EMU. The fact that the EMU doesn't have a substitute for fiscal is a weakness. In the United States at the federal budget level – of course they're a different country, it's a federation – they have a lot of instruments allowing for fiscal transfers this way or that way using different instruments. But they do have fiscal federalism. With complete lack of fiscal federalism here in Europe, the EMU is weak. And that's why with an increasing number of member states inside the EMU and with increasing heterogeneity of the EMU area there is a need for a substitute. Of course we still speak of stronger coordination of economic policies within the concept of stronger economic governance inside the EU. That's true. But still it is far from fiscal union and I believe that this is not a sufficient condition for making the EU stronger. That's why probably a bigger budget would serve the EMU countries as well as the other beneficiary countries.

Now – my last slide – with a few speculations on what is possible as an outcome. Well, I think on the revenue side, the old sources will prevail although I believe there will be some room for gradually phasing in some new sources like levies or charges in the financial sector. On the expenditure side, I believe that the outcome will be indeed a greater focus on Europe 2020, but again there will be a lot of small compromises here and there and this focus will be spoiled by such compromises I'm afraid. I'm afraid either that the idea of a longer horizon, for instance a 10-year perspective with a midterm review, will be probably adopted. That's not a fear, but simply I would prefer the short term solution rather than long term. We need management rules to be simplified, but again, the segmentation of the budget into titles, headlines, and so on, run by individual directorates-general make it difficult to go far in this respect. And as regards the size of the budget, my postulate will not be taken on board. I would say that preserving the status quo in relative terms would probably be an achievement. I don't think that there are any chances for any increase in the budget in relative terms. And that's my final remark. Thank you.

Bartovic: Thank you very much, doctor Samecki. I'm glad that we have the first controversy in this panel and I hope we will have the chance to continue discussing this particular issue. I found very important one of the results of your own research displayed in the table you have presented which suggests that any result of the negotiations will not change substantially the situation of net recipients. In most cases it will remain more or less the same and in some areas will be slightly better. I could see only one or two areas where the situation could worsen.

But maybe you can comment on that later on. I also found interesting your personal opinion that the priority is reform of both the revenue side and also the expenditure side. I can just add that the Czech position is very cautious with new EU taxes, new revenues. We prefer the GNI revenue remaining the main source of revenue. On the expenditure side it looks like the Czech Republic understands the negotiations as a game between the support of common agricultural policy and cohesion and that every recipient has to decide between these two. The Czech Republic has opted for cohesion policy. OK, that was my remark and now I would like to ask doctor Tamás Szemlér from Hungary to start with his presentation.

Tamás Szemlér⁵: Thank you very much. Good morning ladies and gentlemen. I cannot promise you that I will solve all the problems of the budget in 10 or 15 minutes; of course, if I could have 25 minutes for that I could do it. I come from the International Center for Economic Growth. It's an independent institute based in Budapest. I'm very grateful for the invitation and I would like to thank the organizers. When I looked at the program and the topics of this event, I was thinking about these two main topics: budget and energy. For example, it could be a good question but I can't answer that: Will there be an EU budget for energy? I don't know but I still hope you have some energy so I'll continue to speak about budget a little bit. I would like to raise some issues that are partially overlapping with issues raised by the two speakers who spoke before me. But I hope I can add something to that. First of all, I would like to raise the question of what the optimal EU budget looks like. Well, you know a lot of people have seen optimal EU budgets but their visions are different. Just like visions of the Loch Ness monster that are widely available on the internet. So, there are different options. How can we proceed? How can we go towards something which is maybe not optimal but better than what we have at present stage? Or to formulate it in the way that Paweł Samecki formulated it: Do we need reform? Let's start from the present situation. What does this EU budget look like? What are the main problems? I can't list all of the problems, so I'll list some of them. First, with regard to the system of own resources, according to some basic criteria set for many years by the European Commission. Regarding simplicity and transparency, there are some very difficult mechanisms like the actual VAT-base resource, but also relatively simple elements of the system like the GNI resource. Regarding financial autonomy: it was one of the original objectives of creating the system of own resources more than 40 years ago. Well, by now almost 90% of the financing cannot be regarded as autonomous. Maybe it's not a practical problem but it may become a practical problem in the case of lasting economic turbulences. The question of whether the system of own resources adds to the efficient allocation of the

⁵ Tamás Szemlér is a Senior Research Fellow in ICEG European Center in Budapest.

economic resources is practically not an issue when we talk about budget now. It's an issue theoretically and I think it will be an important issue in the future. Regarding sufficiency, much depends on the definition. What do you want to do with this budget, what are you ready to finance? It can be enough, even from the point of view of some countries. For example from the net contributors' viewpoint it can be too much, while net recipients can find good arguments for increasing the size of the budget. Administrative cost effectiveness – and not just efficiency – is also an important question: The answer depends on what resources we are speaking about. Revenue stability is guaranteed by the flexibility of the GNI resource. From the point of view of equity and gross contributions, the developments of the last decade have shown a positive tendency. Let's look at the expenditures side: Does it need to be reformed? Well, in the present financial perspective we have wonderful new headings but with mostly old content. We have some significant changes: CAP is no longer heading number one. It's a very important subheading, but already in the second place after cohesion and competitiveness taken together. And of course the competitiveness objective itself is something important but still at the present stage it is also a compromise, not a real answer to some strategic or at least long-term questions – for example, the evergreen debate between the Common Agricultural Policy and UK rebates. So, it's not the CAP *versus* cohesion but CAP versus UK rebate and this question will come back, I think, in the next two years. Regarding the relationship between the objectives of cohesion and competitiveness, I put a question mark whether it is cohesion *versus* competitiveness or cohesion **and** competitiveness. That is still an issue as it was an issue in 2002 – 2005, when the present national positions were created. Well, we have no new system. If you look at the presidency conclusions in December 2005, it's a jumble of exceptions with points A, B, C, D and you can use the whole alphabet for such exceptions. And at the same time we have new challenges. I put a question mark here as well. Because if someone reads the literature from the mid 1990's, of course there's literature available about the necessity of financing EMU with some instruments, with something more. Of course, also with European-level fiscal policy but there were also attempts to argue for budgetary instruments assisting EMU. Now we had really hard times, we had the crisis, and these claims of course became stronger. But when we think about these claims, let's think about the reality. And just compare the size of the EU budget, roughly one hundred twenty to one hundred thirty billion euros per year with just the size of the Portuguese package, estimated to be eighty billion euro. So, even if you restructure the EU budget radically but its size remains in its present form, it doesn't really solve the problems – problems that are to be solved rapidly when they occur. So, we have to think of something different. Unfortunately, maybe fortunately for some, it's not

about the federation like in the case of the USA as Paweł Samecki has mentioned. It's a different perspective – it's not European integration about which the authors of the MacDougall report have dreamt in 1977. What did we do in order to improve this situation? The decision on the EU budget review that would include public consultation was adopted already as early as in 2005. I have some doubts about the results of public consultations in general although there were many, many contributions. After that it was up to the European Commission to draw conclusions but this was delayed due to many things – due to the economic crisis, due to the European Parliament elections, due to the appointment of the new Commission. Then finally, in October 2010 we got this communication from the Commission. In the meantime – and, of course, it is important in the context of the crisis and the response of the European Union to the crisis – we have the Europe 2020 Strategy. And we know officially since October 2010 that proposal of the European Commission for the new financial framework will be published by June 2011. So, what do we have? Before this proposal, we don't have very solid new information. We have the old one. What is in this October 2010 document, very briefly, concerning the own resource system? “The connection between the origin of the resource and policy financing has been lost, making the system less transparent and increasing doubts about its fairness. A fresh look is essential for realising the EU financing principles of autonomy, economic transparency and fairness.” Basically, you have the same questions as ten years ago. In 2004–2005, we didn't solve strategic problems – we solved the acute problem and we had agreement on the current financial framework. But the old problems are still there. Let's look at the other side. Of course, the Europe 2020 Strategy has been mentioned by both speakers. It is also stated in the communication which closed the public consultations and review of the EU budget that “the EU is committed to the fundamental issue of economic reform, to unlock the potential of the EU economy to find new sources of growth and create new jobs”. In the Europe 2020 strategy, you see all the seven main points and I think we have a very nice structure there. The big question – and I do agree with those who are skeptical in this respect – is how we'll be able to fill in this structure with content. If we build the EU budget on a framework without a substantial new content, then it's a serious mistake. So, the old good question comes back, probably you know it in one form or another: How to replace the *juste retour* with a more constructive approach? Well, in a very logical way, to redefine the necessary policies and on the basis of this agreement, to calculate the necessary size of the budget and to create the correct system of financing without exceptions – the principle is so simple. Of course, in practice it's not that simple. The net positions have already been mentioned and of course communicating all these debates is very difficult. But one element of communica-

tion will be very important: the net balance of European integration for any member state is not equal to the net position *vis-à-vis* the EU budget. This is very important. You can begin with the first achievements of the European integration process and continue with a lot of other achievements. The EU budget is an important issue but compared to the other achievements it is a relatively small issue, but of course it's visible. It's tangible for the politicians and for the voters, so it of course deserves attention. But we should think in terms of the balance of European integration in a much broader sense. Of course this request of avoiding the *juste retour* is something more fashionable than ever and the crisis reinforced the hopes that this is possible. Well, all countries are interest driven. They take into account at least the interests they perceive as visible, tangible and communicable. This is quite normal at the present stage of integration, we have no federation and also the new members are interest driven within the EU. So, if we have such a situation, what are the chances for changes, not for an earthquake in the EU budget but for reforms? Of course crisis lessons can change the attitude of countries and also institutional changes can contribute to progress. All in all, I'm a bit skeptical but I also say, I'm trying to be an optimist, so maybe we will see the result in the end of the process – so maybe if not an optimal but at least an improved version of the EU budget. Thank you very much for your attention. And if you have questions I'll be ready to answer them. Thank you.

Bartovic: Thank you very much Tamás. I found your presentation again very interesting and thank you for a very useful overview of the positions of the biggest stakeholders in the EU on the individual questions related to the European budget. I also found very important your remarks on how to help or the question how to fill in the structure with the content. And if the content is new, you mentioned that there will be a necessity to redefine the policies in order to fill in the content, the structure in the right way. I may just doubt if there is enough time now to think about the redefinition of the individual policies. That's also leading to the question of the new names of the budget categories in the Commission proposal. If those are only labels or if there is really a change inside those categories.

*Grzegorz Gromadzki, Kornel Andzsans-Balogh,
Petr Binhack, Severin Fischer*

The European Union Energy Policy in the programme of the Polish EU Presidency

Transcript of debate from the conference:
Energy and the budget as priorities of the Polish EU Presidency
The prospect of Visegrad countries and Germany

Grzegorz Gromadzki: After the budget discussion we're going to discuss now issues related to energy. First of all, I would like to introduce our panelists: Mr Kornél Andzsans-Balogh, Regional Centre for Energy Policy Research, Mr Petr Binhack, the head of the Energy Security Group Association for International Affairs in Prague and Mr Severin Fischer, researcher from the German Institute for International and Security Affairs, from Berlin.

Before I give the floor to the panelists, I would like to share with you several comments. The final shape of the priorities of Polish presidency will be known just a few days or a few weeks before its initiation, but there are proposals that are on the table already. I'm thinking about the document that was published by the government in mid March. These proposals most probably will be the basis of the final priorities for this presidency. The energy related issue is not a separate priority but is part of a broader priority that has been defined as a *Secure Europe*. Besides this priority, we've got two others: *European integration as a source of development*, and in this we've also got what was discussed during the first panel European Union budget, and the third big priority – *Europe benefiting from openness*. This is about enlargement of the European Union: Croatia and other Balkan countries and issues related to relationships with neighbours, especially the Eastern Partnership. The Polish government has selected one issue from among the issues related to energy. This is related with strengthening the external energy policy of the European Union. So, it's not energy as the whole, but just one element of the

EU energy policy. And I believe that it hasn't been accidental, I'm talking about this choice for two reasons. On the one hand, there is the discussion concerning energy in Poland, things related to security and access to raw materials. First of all, gas coming from Russia. On the other hand, Poland is very much afraid of changes taking place in the economy in the power sector. Those changes that would be the consequence of dropping the usage of coal being the main source of energy. I believe that we're trying to forget about things related to the reduction of the CO₂ and so the climate policy. This approach that the government has presented is a very narrow approach to the energy sector. During the Polish presidency in the second half of this year we should also have other things discussed, not only things related to energy issues related to external relations of the European Union. We should also be focused on the internal energy market. The Commission will present a document concerning the future of the energy policy of the European Union up to the year 2050, so we should have a very serious discussion concerning what the energy sector in the European Union should look like in the perspective of several decades. At the end of the year in November and the beginning of the December in Durban, the Climate Conference is going to be held. And this will be of key importance, as it will allow us to focus on the reduction of CO₂ and this agreement is going to replace the Kyoto Protocol. The question is whether our presidency should really take care of these issues that I've just enumerated. What sort of initiatives related to energy could Poland propose during its presidency? Can we have a sort of consensus among the countries of Central Europe? What are the expectations and concerns of our European Union partners? I mean the neighbours of ours, the Visegrad Group countries or Germany. In order to wrap it up I would like to say that it's worth asking whether Poland should only be focusing upon the EU energy policy in its external dimension or should we really have a broader look at the energy sector?

Kornél Andzsans-Balogh¹: I work in Budapest at the Regional Centre for Energy Policy Research. Before I go on with the presentation I would like to say a few words about our research centre. We're an economics research centre dealing with studying electricity and gas market regulation and conducting market analysis.

Today I was asked to give a perspective from the Central and Eastern European viewpoint with a bit of focus on the Hungarian perspective. I gave the following title to this presentation: "The question marks in EU energy policy".

Energy policy in general is a very broad topic of different issues and I'm afraid I'll disappoint you because I won't speak about two popular topics, one

¹ Kornél Andzsans-Balogh is a Research Associate in the Regional Centre for Energy Policy Research in Budapest.

is nuclear energy – including Fukushima – and the other one is climate-change policy. Why won't I speak about nuclear energy? Poland does not have a nuclear power station, therefore even if there'll be huge debates on the EU level in the next half – year on this issue and there will be nuclear power plant stress tests coming up at the end of the year, all Poland can do is chair this debate. In my point of view if you don't have a [nuclear] power plant, you can be a successful chair of this debate, but that is the end of your role .

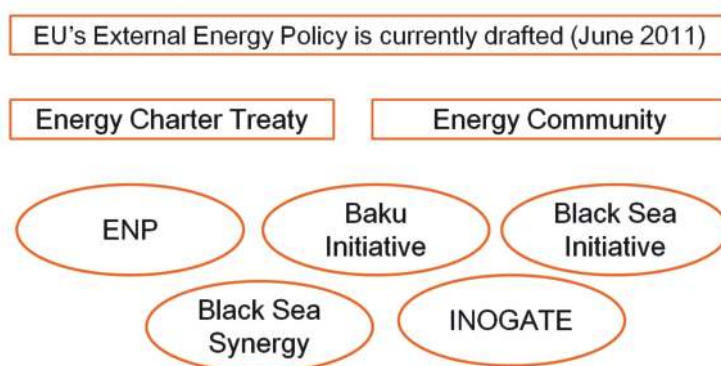
About climate change or climate policy I'm afraid I'm not able to speak in depth, as these 10 minutes are not enough to cover this important topic. So instead, today I would like to focus on the following: firstly, on the external energy policy of the EU, and then I will raise some issues which are kind of disappearing from the debate. One of these is Ukraine and the others are some internal issues.

Here, in Eastern Europe, we like to refer to the energy policy of the EU as an insurance, as help to address our energy security issues. I would like to stress that the energy policy is not only about energy security, however, here in our region it is always coming back to energy security. We're not as well balanced – in the sense of supply and geographical givens – as in the West, therefore we have to address these issues properly on our own. After Poland, there won't be many Eastern European countries presiding over the EU. That is why we have to make the final push right now instead of just waiting and hoping that someone else will address these issues.

To conclude I'll sum up some points, where Hungarian or Central European interests can meet during the Polish presidency on EU external energy policy or EU energy policy in general.

There's no energy policy – external energy policy –written yet in the EU. The Commission is drafting one and the first draft will be out in June 2011. Some countries already sent in their public consultation summaries. Poland and the Czech Republic are among them, Hungary is not. It's hard to speak

Figure 1: Is EU's External Energy Policy a Projection of the Internal Energy Policy

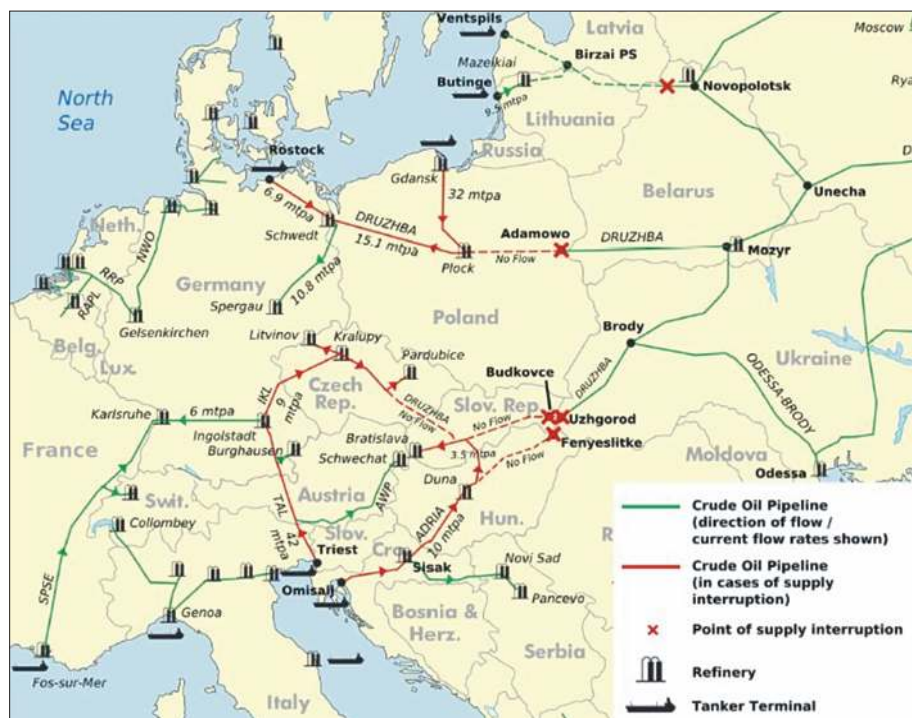


about something which is still being drafted. I would like to show you the EU or EU-related programmes that are already on their way to address energy policy issues. Some of them have broader perspectives, such as the Black Sea Synergy, dealing not only with energy issues. As you see (Figure 1) all of these initiatives are very much focused on Eastern and South-Eastern Europe, the Black Sea region, and the Caucasus. I didn't write but probably I should have written the North African countries or the Mediterranean projects that the EU has. Having in mind the recent events in North Africa, energy definitely will not be the most topical issue through the Polish presidency. Energy issues related to North Africa now will be frozen for a little while, therefore we should focus on Eastern Europe. These incentives have been out there for a couple of years and have results but probably will have to be combined together and make clearer pathways in the external energy policy where these main aims can be strengthened further. Ukraine was really an important topic in 2006, 2009, but now in 2011, we're speaking less and less about Ukraine. Why is this a problem? We think that the issue is not resolved and we're slightly bored with talking about Ukraine. It's getting difficult because the political environment has changed there. I would like to draw your attention to one important thing. 2010 gave a huge push and gave a perspective to increasing energy security for that part of Europe that receives gas through Ukraine. Why? The IMF managed to persuade Ukrainian legislators to implement a gas market liberalisation act. This law stipulates that the Ukrainian gas market has to be unbundled until 2015. One of the first deadlines is the end of this year (opening the market for large customers). The law also foresees the unbundling of the Naftogas business in separate entities (e.g., in transportation and storage). Production and distribution is already unbundled in Ukraine. As the recent events show in Ukraine, they're not really making an effort in this regard, therefore it will make sense if we don't let this chance pass by but follow up with Ukraine and look after their process of national market liberalisation. Why is this important? The natural gas market in Ukraine is still opaque, the liberalisation will not solve everything. However, it will be one step forward and these steps are needed to have a secure transit country even once the North Stream is in operation. This allows us to have a safer transit country. Furthermore, it also enhances the gas market competition in the Eastern part of the EU. Ukraine can contribute to the competition by having the largest natural gas storage in the region. As a result everybody can benefit from this policy.

Furthermore, it was also mentioned in the introduction that from a Polish perspective the energy/raw materials supply security is still under debate, and that it is still perceived as a problem. I came here to share some thoughts in this regard. One topic is: crude oil supply security. I don't know if you're familiar

with the ILF Consulting Engineers' recent paper which was looking at eight different scenarios as to what could happen if the oil supply is cut on Druzhba. Druzhba supplies the oil for all Eastern European countries. The study concluded that with a relatively small amount of investment, starting from 10.3 mln euros, the supply security can be guaranteed for the entire region. This means that although we have the problem, we also know the solution. Now we have to implement the measures. Oil supply security is not really a huge issue anymore.

Figure 2: Simulation of oil supply interruptions on the Druzhba pipeline



Natural gas security

After the 2009 crisis, there were many actions taken by the EU and by national governments. Reverseflows have been introduced on the pipelines; some countries built strategic storages; there are interconnectors drafted but not yet built. We have to continue this work. There is a new Regulation No 994/2010/EC by the European Parliament and of the Council which foresees risk assessment and action plans. By 2014 everything has to be ready to know the clear action plans that have to be implemented in a case of emergency. The most important development in this regard is the Commission's

supervision. It means that all natural gas market related long-term import contracts with third countries have to be sent to the Commission for approval and have to be supervised by the Commission to determine whether these negatively effect neighbouring countries. It is a significant step forward in regards to transparency and increasing the efficiency inside the EU. Is the homework done? Are we ready to guarantee our energy safety with these national gas regulations?

When we look at the Ukrainian example which I showed you before, it is clear that so far the EU external energy policy has always been implementing internal policy to the external dimension. Through the Energy Community Framework we're urging neighbouring countries to implement the same [energy] legislation acts as we did a decade ago in our own [energy] sectors. It's a way of exporting internal measurements into the external sphere. It does not always work, but it's a good intention.

Each member state's duty is the continuation of opening the natural gas market. In the region national champions still exist, which is not good for competition. The benefit of competition is enhancing further diversification.

In the regulatory environment there are serious issues because building new interconnectors won't resolve the problem automatically; if there is no third party access guaranteed or the capacity auction is not functioning properly, the free flow or security of supply cannot be entirely guaranteed. These issues have already been recognised and the debates are ongoing. We have to move on with these debates and properly implement legislation.

In electricity, we have network development problems and some issues that I hope my German colleague will address as well. There are loop flows in the regional electricity grid that are partly not caused inside the region but other parts of the EU. The question arises, who has to pay for the new network developments? This is an important debate, though probably not as exciting as the issue of natural gas. However, this is a debate that has to be concluded in the next few years.

Finally, I would like to provide the Hungarian perspective – I would like to underline that I'm not speaking on behalf of the Hungarian government. The signs [in Hungary] are that the country will support everything that is related to energy efficiency both in the EU internal and external policy. It would be really useful for Hungary if the regulatory framework in Ukraine got better, as more than 80% of our natural gas imports are transited through Ukraine. We are also looking forward to further integration of the electricity market and market coupling in the region. There is also a strong support for increasing the EU's role in related international organisations and increasing the number of members in the Energy Charter Treaty. This would be a short introduction to the topic from our perspective. Thank you!

Petr Binhack²: In my contribution I will briefly touch the topic of the Czech energy policy and the perspective on the Polish presidency of the EU Council. I'll try to find some links between Czech experience and the Polish presidency. What I'm going to do is an evaluation of the current state of the EU external energy policy. At this point I will dare to modify one old proverb and say that the EU energy policy is like a ghost. Everybody is talking about it but nobody really has seen it. Well, two years ago energy and climate change were among the top priorities of the Czech EU presidency. Energy security, besides economy and Europe in the world, defined our presidency agenda. However, the Czech presidency was evaluated with quite a bit of embarrassment, resulting mainly from internal political instability and the fall of the government. But external energy relations were considered as a success story. The Czech presidency dealt with the gas crisis in 2009 and external relations emerged as one of the key topics. Besides the gas crisis, the Czech presidency dealt with external energy relations in the case of the Nabucco pipeline project, which was pushed forward in May 2009 at the Prague conference. Two years later Poland will take over the EU presidency. It is the last heavy-weight presidential country for the next two years. That is very true especially in the case of energy security issues. Given the historical, economic, energy and geographical circumstances Poland will face similar challenges like the Czech presidency did. Energy dependency on gas and oil, imports from Russia, active approach towards nuclear energy, climate policy challenges and obstacles to internal market realisation. These are some of the conditions under which the EU Polish presidency will form its contribution to the EU energy policy and its future state. From my point of view it is very difficult to compare the Polish and Czech presidency energy priorities. As I said before, the Czech presidency had to deal with the gas crisis in 2009 more than it had intended and now I'll quote Mr. Bartuska, Czech Ambassador-at-Large for Energy Security, "If you want to achieve something, a crisis situation is the best opportunity". That was the case of the Czech presidency. Today more attention is focused on the economic crisis, the euro zone debt crises and this is not over yet. So I don't think that the Polish presidency will have so much space in energy policy issues as the Czech presidency had. Different topics have emerged, and as we saw today, the first panel was not about energy but about economy – that's quite self-explanatory. There are also new security issues that have emerged in last few months. Revolutions across North Africa and the Middle East have somehow overshadowed energy relations with Russia. The issue of alternative transit corridors has lost its popularity and other issues have become more relevant in the EU agenda. Questions of internal market and climate policy seem to be

² Petr Binhack is an Energy Security Analyst in the Association for International Affairs in Prague.

more important than ever. These Circumstances will definitely shape both Polish priorities and the results of the Presidency.

To briefly outline the Czech position: From the energy security point of view, Czech Republic is in a good position compared to other post-Soviet countries in the region. We're dependent on energy imports from 28% which is below the EU average. Primary energy mix is relatively diversified with a high proportion of domestic resources, mainly brown coal with 43 percent share on primary energy mix. In electricity production we are highly dependent on coal fired power plants, around 60% of our electricity production. Approximately 30% of our electricity production is from two nuclear power plants. There are projects to build two more reactors in the next two decades. So, we can say that the situation in Czech Republic is a bit different from the situation in Poland. Other resources like gas and renewable resources are less important in electricity production. However, we can expect a growing importance of gas firing power plants and renewable resources to achieve climate goals. In the 1990s we successfully diversified our oil and gas imports, which played a crucial role during the gas crisis with reversed gas flows to Slovakia. From this perspective, different conditions in the energy sector could result in different priorities as well. Energy priorities of the Czech Republic are concluded in the Energy strategy concept till 2050 approved in 2004 and updated in 2010 to respond to lessons learned during our Presidency of the EU Council. The Czech Energy Strategy is based upon the following priorities: a balanced energy mix, energy efficiency, internal market within the EU and international cooperation, interconnectivity, sustainability, and of course security of supplies. As you can see in these priorities both internal as external energy issues on the EU level are reflected.

Now I would like to speak more in general about the European Union. The European Union is one of the biggest energy markets with a high rate of import dependency. This dependency will rise in the coming future and it does not matter if we talk about oil or gas. The European Union without a single energy market and single approach toward third countries won't be able to react to future challenges. Growing competition from emerging economies, mainly from Asia, like China, India, etc., leads to a situation where the European Union is not able to achieve its objectives as we can see in Sub-Saharan Africa or the Caspian region. Of course this is a problem not only in the case of energy, but of the EU external relations in general. Today economies of EU member states require safe, efficient and sustainable energy supplies. This goal can be reached only through a functional internal market and efficient relations with key partners. In terms of Czech priorities at the EU level, the Czech Republic wants to play an important role in developing the Trans-European Network; North-South, East-West interconnection in gas and electricity with gas storage

capabilities as the key goal to achieve. We already contributed to the legal framework of the internal market with the Third Energy Package Agreement reached during our presidency. The question of successful implementation of 2020 targets is reflected in the Czech Republic, but the results are something of an embarrassment so far.

The external dimension of the EU energy policy is somehow a more popular issue in the Czech Republic than a functional internal market. This could be a result of the last gas crisis in 2009 when energy security discourse concerning the security of supplies was highly politicised and this persists in the Czech Republic. As I could read in the input study for this panel, the situation in Poland is very much the same. As a result, the Czech Republic is one of the strongest supporters of a gas pipeline project bypassing Russia. I think that the so-called South corridor with the Nabucco pipeline as a flagship is a good example.

The next step for the EU energy policy is clear. We have to finalise the internal market, it means both legal and infrastructure framework. Without completing this task we can't go further with external relations. At this point I completely agree with Mr. Gromadzki. The external dimension can't be the "be all and for all" of the Polish presidency. But we can't forget important projects for energy security policy, such as Eastern Partnership Cooperation, which has its energy dimension and I think it is the Polish presidency which has to push the project forward.

Severin Fischer³: I think that I'll be the first speaker today referring to the consequences of the nuclear catastrophe in March 2011, and this has a special reason: Fukushima changed energy policies nowhere in the world as fundamentally as it did in Germany and this also has had a major impact on the largest electricity market in Europe and that is the German one. Some of you might remember that in September 2010, the German government decided on a new energy concept. Part of that was the life-time extension of nuclear power plants. Some people tend to forget that it was not only about nuclear power plants. But that was of course one of its core elements. This plan has now been changed and reversed at least temporarily but it doesn't mean that the other parts of the strategy are not valid anymore and to some extent the change on the nuclear dimension will also maybe enforce other parts of this new strategy.

First I'll point out a few crucial parts of this German strategy that are still valid and that will be developed further in the coming months. Then I will talk about the implications from that for the EU energy policy and finally suggest some issues for the Polish presidency.

³ Severin Fischer is a Researcher in the German Institute for International and Security Affairs in Berlin.

After Fukushima nuclear energy – and this is quite clear – will have no future in Germany anymore. This is due to societal pressure, but also due to already made decisions and the consensus reached under the Schroeder government in the beginning of the century to fade out nuclear power from the energy mix. Nevertheless, people tend to forget that the energy concept I was talking about before was not only about nuclear. There were also other important policy targets and environmental protection aspects in there. One is the greenhouse gas emission reduction of 40% by 2020 and 80-95% reduction by 2050. This is a fundamental change for the energy system if it will be implemented in real policy terms. The other (also from my perspective very important) targets are the renewable energy targets of 18% by 2020 and 60% by 2050 – meaning that at least 80% of electricity will come from renewable sources in 2050. This means that environmental protection and the idea of green growth will remain the essential elements of German policy, maybe even more so after March 2011. The nuclear catastrophe of Fukushima will have a few direct and short-term implications for Germany. The first one is the temporary shut-down of 7+1 nuclear power plants in Germany that has been decided in April. This changes the interplay on the electricity markets fundamentally. The second decision regards rather the long-term perspective. It is the installation of an ethics commission that should discuss the consequences of Fukushima for German energy policy and the future of nuclear energy and a moratorium on the earlier decided life-time extensions of nuclear power plants. One of the consequences from this debate, one that brings us directly to the European dimension, is that the meaning of natural gas will probably increase in the coming years due to the gap that has to be filled in order to run to a renewable age that we want to reach in 2050. But it has also very direct consequences in the very short term. What you see in Figure 1 is the net export-import balance of the German electricity market before and after the shut-down of the 7+1 nuclear power plants. In the last couple of years, Germany was an exporter of electricity on average over each year. What has happened now is that we will be on average at zero or slightly on a negative basis. This also has implications for the European electricity market due to the fact that the German market is so large and in geographical terms in the centre of Europe. It also means that the already high share of renewables and the volatility of electricity production will be felt in the neighboring markets more than before. The third consequence, I think, of the decision on nuclear power plants will be that the development of renewable energies will get even more attention than it had been getting before. What you can see in Figure 2 is that over a time period of only 10 years, the share of renewables in the German electricity mix growing from 7% to around 17% in the year 2010. 17% of the electricity consumed in Germany – just to give you a picture of the dimensions – is about the consump-

tion of the Czech Republic and Slovakia together in a whole year. So the 17% already mean a major impact for the German electricity market. Now we'll have a revision on the feed-in law for renewables in 2011 and of course the Fukushima events will have an implication on that. The first one is that we need to go faster than before and we're already quite fast on increasing the share of renewables. On the other hand, it means that we have to organise a system in which renewables need to take up more responsibility on the market. So far renewables are fed into the electricity grid without any considerations about demand structures or consequences for network stability. Now they have to play more under the market rules in order to balance the volatility as we saw in the last couple of weeks. It will also have consequences on the cost dimension. Around 10 bln Euros are spent every year by German electricity consumers on the feed-in law and the perspective for that is a steady growth. It will have to be, after all, a two-fold strategy: on one hand increasing the share, on the other hand limiting costs and making it more market compatible. And this brings me directly to the question of EU energy policy in the German perspective and the implications of the German policy change on the EU energy policy.

So far I see the debate is very much focused on how Germany tries to cope with the consequences of its decision and the changing shape of the German energy strategy. But it will also lead to a re-adjustment of the German EU policy approach. The first direct consequence, I think, will be massive investments that are needed in electricity and gas. We've already kind of heard that in the years before, but I think now the German position might also be a little bit changing. So far it was quite clear that only companies should invest in infrastructure, but I think the perspective on that is slightly changing with regard to the willingness of spending public money on infrastructure. The debate about new instruments, a new level of financing infrastructures, storage, capacity, things like that, is more likely to be more positive in the coming months. The second aspect that I think will come up within the next few years is that Germany must give up its resistance to the development of cooperation measures in the area of renewable energies. So far Germany has protected its feed-in system very harshly. I think we will not be able to do that over a longer term if you just compare the development of the German renewable electricity market with that of its neighboring countries. So the idea would be to identify added value in the sense of common projects, European projects in the renewable energy branch, for example in the North Sea or the Mediterranean Sea, that will be very important aspects with regard to using money more efficiently and effectively. The third aspect relates to the future of natural gas in the energy mix and after the changing situation in the German electricity market, there could be also a European approach towards development in the gas

market. The first step is of course real implementation of the internal market. The second one could be a more European approach towards the external energy policy. Finally, adding the third consequence, and I'm quite sure that this topic will come up in the coming weeks, namely the debate about Europe-wide safety standards in nuclear power plants. This is for Germany a special topic if you look at the numbers of nuclear reactors. Just in a range of 120 km around the German border there are 22 nuclear reactors. This means that you can shut down the German nuclear power plants but the safety will not be much increased if you have in a circle around the German border a similar problem. So that means Germany will probably work on new safety standards for existing, but also for new installations. In the coming years this will hopefully be followed by a debate about the future of the Euratom Treaty.

Finally looking a little bit at the comparison between the German and the Polish perspective on energy policy, which could be interesting for the presidency, I just chose randomly a couple of topics which I think are quite important in the discussion. What we see from Figure 3 is that there are not many common aspects in the sense that it will be hard to find any common grounds for debate. If you think about the nuclear power question, of course, the German position seems to be quite clear on that. On the opposite, Poland has a rather positive or at least neutral position on that. Then spending money on renewables on a large scale, I just said Germany spent via its feed-in law about 10 bln. Euros a year. I think Poland will not be ready to spend the same amount or a comparable amount on renewables. Then the hard coal question also comes up and the positions are also quite different on that. I already talked about the energy infrastructure and the German position is quite clear that there should be no German money on the EU level to be spent on that. Poland again is rather positive, at least in the gas sector, on that. And the crucial question, I think, on the 20 or 30% emission reduction targets in the EU also shows major gaps between the two countries. In Germany there is a split between the Environmental Ministry and the Ministry for Economy but I think the Polish position is quite clear that there will be no change to the emission reduction target in the EU in the coming years. In the external policy, I think the German position is and still will be that companies are the major actors in that branch and I think Poland and other Central and East European Countries have a slightly different perspective on that.

So, what could the Polish presidency do, also maybe from a German perspective? I think the first and the most important aspect is the aspect of building bridges. I think especially in Polish energy policy we see something like an East-West division and this is most obvious in the area of spending EU money. If there would be a credible concept – and the Commission is working on that, especially in infrastructure – looking at the Energy Efficiency Action Plan

could also bring a benefit. There are a couple of measures that could deliver a common added value to all 27-member states in the EU, so I think the topic how to connect the budget decision with the energy policy decision and also the development of a resource efficient economy could be one of the topics the Polish presidency could work on. Then I think that a more long-term discussion that might be not so concrete but also very important is the need for a more in-depth debate about the role of the European external energy policy. As I said before, the perception of an external energy policy in Europe is quite different between Member States. Therefore, an open debate about that is one of the important things. The cooperation and harmonisation of renewable support report schemes could be a topic to talk about in the coming months and the Polish presidency would be maybe a good actor in order to start the discussion. And finally the Commission announced that they'll deliver an Energy Roadmap for 2050, so this is also a topic where the Polish presidency could really bring an input to start a long-term discussion with the partners in the EU.

I think the second half of 2011 under the Polish presidency will not be the time of big decisions. But this offers the chance to start an open discussion about the general strategic aims, maybe follow up on the discussions we missed in February during the Energy Summit. This could include a few topics that were not openly discussed over the last couple of years but could be decisive in the long run.

